



Chapter 7

Credit Reports

Few people realize that when you sign up for a new credit card, apply for a student loan, apply to rent an apartment, or even accept a new job, you may be giving the bank, the landlord, or the hiring company, permission to review your credit report. Do you know what your credit report could tell them? You should. A credit report can help or hurt you in a lot of ways. Understanding what it's comprised of and how information is recorded in your report makes you a savvier consumer.

Every time you apply for, or accept, a loan or other form of credit, this information is added to your credit report. More importantly, this report records how you use your credit and how much of it you have available. It also keeps track of your

ability to repay that credit. In a way, it's your credit report card.

So why is this information important to you now? Well, there are many reasons. Most importantly, your credit report represents your ability to handle financial responsibilities. The more responsible you are, the easier it will be for you to obtain financial assistance later in life.

Credit Report & Credit Score – What Are They?

Your entire financial credit history is compiled by one of several credit bureaus and then organized into the following formats.

Credit Report

This report contains a detailed history of all your borrowing habits for the past seven to ten years.

Credit Score

A credit score is a shorthand way for a lender to tell if you're a good credit risk or a bad one. The information from your credit report is calculated to

determine the financial risk you present to various lending agents (*landlord, employer, credit card company, bank, etc.*).

Lenders rarely spend much time evaluating the specific details of your credit report. What they are interested in is how these details form your overall credit score. People with the highest scores get the most favorable interest rates and can save a lot of money. If your score is very low, you may not qualify for any credit at all. Your credit score is made up of five factors:

- **Your ability to make payments on time** – Paying on time is good; missing payments consistently will lower your score.
- **The amount of credit you owe** – The total amount you owe on your credit cards, car loans, mortgages, etc.
- **The length of your credit history** – The longer you’ve had credit, the higher your score. This is one of those “not fair” things, especially if you’re just starting to build your credit history.
- **The type of credit you owe** – A mixture of revolving credit (*e.g., credit cards*) and installment credit (*e.g., mortgages*) is statistically a better risk.
- **The number of requests for new credit** – How many credit applications you’ve made.

While lenders are interested in your credit score, you should also be concerned about the specific details of your credit report and what steps you need to take to raise your overall credit score. Why? Because a lousy credit score means you’ll pay higher interest rates on credit you’re able to get. In extreme circumstances, a bad credit score means no credit at all.

What Does A Credit Report Say About You?

Credit reports are made up of five basic parts:

- **Personal Information** – your name, telephone number, current and previous addresses, Social Security number, date of birth, as well as a list of your current and previous employers.
- **Credit History** – including any late payments to banks, credit card companies, retailers and other lenders. This information remains on your credit report for seven years.
- **Public Records** – any debts owed to a creditor or tax agency that you have failed to pay. In addition, any filings of personal bankruptcy or court judgments against you are included. These remain on your credit report for seven years, except bankruptcies, which stick around for ten years.

- **Inquiries** – when you seek to obtain credit or authorize someone to access your credit report, these actions are recorded. The length of time these items remain on your credit report varies by credit bureau.
- **Current Credit** – amounts owed, amounts available, and payment amounts on installment loans.

When you evaluate the details of your credit report, consider the answers to these questions: How good are you at managing credit? How reliable are you at making payments on time? Do you take your obligations seriously? The answers can mean the difference between getting a loan (*or a credit card or a job*) or not.

Who Has The Right To See Your Credit Report?

Any person or organization permitted to see the information contained in your credit report can see it. This can include lenders, your employer, and even your landlord. There are two types of credit inquiries that can be made to your credit report:

Hard Inquiries

A hard inquiry happens when you authorize someone to access your credit report. This includes applying for credit cards or authorizing your employer or landlord to access your credit report. These inquiries are recorded on your report. Lenders and other creditors worry when they see a large number of hard inquiries because it suggests either a lack of responsibility or an effort to borrow beyond your means.

Soft Inquiries

A soft inquiry is not a bona fide request for credit. For example, if you ask for a copy of your credit report (*which is your right under the law*), this would be a soft inquiry. Soft inquiries are not recorded as part of your credit report. Soft inquiries also happen when a company gathers potential marketing information about you based on your credit report – for instance, those unsolicited offers for credit cards you get in the mail. If you don't want these kinds of offers, the Fair Credit Reporting Act says you can contact the major credit bureaus and ask them to stop sending you card solicitations and other offers. To learn more about this program, call 888-5-OPT-OUT/(567-8688).

When Should You Get A Copy Of Your Credit Report?

If you're serious about managing your credit, you should review your credit report on an annual basis. Be sure to get reports from each of the three

major reporting companies. An annual review will let you take care of problems before they impact your creditworthiness. It will also help protect you from credit reporting errors and allow you to spot identity theft.

Other times you may want to obtain a copy of your credit report:

- Prior to applying for a large loan, like a car or home loan.
- Prior to applying for a job.
- After major life changes, like a marriage or divorce.
- After being denied credit when a credit report was used in making the decision.

When you receive a copy of your credit report, don't assume that the information from one credit bureau is the same as the information from other credit bureaus. Each bureau operates separately. Get a copy from all the major credit bureaus, compare the information, and be prepared to fix any errors you find.

How Do You Get A Copy Of Your Credit Report?

A recent amendment to the federal Fair Credit Reporting Act requires each of the nationwide consumer reporting companies (*Equifax, Experian, and TransUnion*) to provide you with a free copy of your credit report, at your request, once every 12 months.

Because this is a new program, it is being introduced in phases. However, everyone will have access to free credit reports by September 1, 2005. To learn more about the free credit report program, visit the Federal Trade Commission's Web site at www.ftc.gov.

If you are not currently eligible for a free credit report and you need one, by all means invest in purchasing one. The fee is minimal – less than \$10 – and taking action now may save you from a lot of problems in the future.

You can obtain a free copy of your credit report from the following major credit bureaus:

Equifax	Experian	TransUnion
800-685-1111	888-397-3742	800-888-4213
www.equifax.com	www.experian.com	www.transunion.com

How Do You Fix Mistakes In Your Credit Report?

Credit bureaus are required to investigate any claim of errors in, or omissions from, your credit report within 30 days. But you have to let them know you suspect an error. Once a claim is made, the credit bureau contacts the creditor in question and investigates the claim. If an error exists, the creditor must correct it and notify all major credit bureaus of the error. In addition, the credit bureau that originally reported the error must send you a free copy of your revised credit report to show that the error has been corrected.

If your credit report contains an error or omission:

- **Document your claim** – Write a letter to the credit bureau explaining your dispute, send any information that substantiates your claim, and request that the error be corrected.
- **Inform the creditor** – Although it is the responsibility of the credit bureau to contact the creditor in question, it's always a good idea to inform the creditor of your dispute as well. This way you can be assured the creditor receives all the information you provided to the credit bureau.
- **Send copies** – Never send original documents. In some cases, that document may be the only proof you have to substantiate your claim.
- **Keep records** – Document all correspondence you receive from the credit bureau and creditor and document all phone conversations. Include dates, times, and the names of the people involved.
- **Track information** – Whenever you send materials via the post office or other carrier, or by fax, e-mail or any other means, always keep track of when the information was sent and when it was received.

If your claim is denied and you don't agree with the outcome, you do have a few other options available.

- Write a short statement of 100 words or less and have the credit agency include it in your credit report. This information will then be sent to whoever requests a copy of your credit report. At your request, the credit bureau must send a copy of the updated version of your credit report, free of charge, to anyone who has recently received the previous version.
- Contact the U.S. Federal Trade Commission's consumer help line at 877-FTC-HELP or visit www.ftc.gov. Inform the representative of your situation and request their assistance.

What If You're Denied Credit?

If your application for credit is denied, federal law states that the lender must provide you an explanation for the rejection. If the denial was based on your credit report, the lender must provide you the name and address of the credit agency that provided the report. When you are denied credit, all credit bureaus are required by law to send you a free copy of your credit report (*if you request it*) within 30 days.

What If You Have Bad Credit?

If you've been paying attention and have followed our tips and suggestions in this book, you shouldn't have this problem. However, if you're overextended or overwhelmed by the amount of debt you owe, take action now to correct your mistakes. A number of credit counseling services are available to help you.

Credit counseling helps consumers improve their debt-management habits and take the appropriate steps toward improving their credit. These services are not free, but are excellent investments that will help you get your financial life in order. Should you choose to invest in one of these services, be sure to do the following:

- **Ask about fees** – High charges or vague answers are a sure sign you should look elsewhere. Do yourself a favor and shop around for the best rate you can find.
- **Ask if they are accessible** – Check out their hours or whether you can deal with them online or on the phone. Your life is already too complicated to have to rearrange your schedule to visit these people.
- **Ask if their employees are paid on commission** – These people, like used-car salesmen, are more interested in their own income than your debt problems.
- **Ask if they offer educational courses on debt management** – The more you can learn about managing/controlling your debt the better.
- **Avoid “quick-fix” firms** – Beware of the slick, late-night television ads or Internet pop-ups that promise they can fix any credit problem. There is no such thing as a “quick-fix.”
- **Contact the Better Business Bureau** – Complaints to the Better Business Bureau about irresponsible credit counseling firms are on the rise. Check to see if the agency you are considering is accredited by the Council on Accreditation or other accreditation services.

Additional information about credit counseling services can be found in the Debt Management chapter.